



CALIFORNIA STATE AUDITOR:

A CATALYST FOR INNOVATION



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1997

A MESSAGE FROM THE CALIFORNIA STATE AUDITOR

Webster defines auditing as a “methodical examination and review.” This definition suggests that the auditor scrutinizes past activities following a set of predetermined approaches looking for errors. While we may include these elements in some of our audits, the California State Auditor’s Office has long embraced a much broader definition of auditing. If we had narrowly followed Webster’s definition, we would not have served California’s citizens as ably as we have for more than 40 years in promoting efficient and results-oriented government. The many achievements and accomplishments we describe in this annual report are the result of taking auditing beyond the norm. We reject the idea that audits need to be methodically constrained, overly bureaucratic, and visionless.

The very nature of auditing forces one to be flexible and adaptable, going from one audit to the next and from one entity to another. Because the Bureau of State Audits (bureau) has only one audit division, it creates a dynamic audit force, adept at performing a myriad of audits whether financial, performance, compliance, or investigative. Since no two audits are alike, our auditors must keep abreast of best industry practices and remain current with the ever-changing public and private environments. Our auditors are successful in quickly learning, understanding, and adapting to the challenges of each task. They become masters of many subjects and issues, comfortable in thinking creatively, transcending boundaries, and offering innovative approaches to resolve issues, reengineer business processes, provide assurance, investigate allegations, and opine on financial soundness.

The 43 audit reports we issued in 1997 and our continued attention to issues we raised in prior years, are a positive catalyst for innovative solutions that help stimulate California’s progress. These reports meet a variety of objectives and cover topics such as habitat conservation, breast cancer research, blind enterprise programs, fraud investigations, medical centers merger, federal compliance, and unreimbursed medical costs.

The 26 performance audits we issued during the year included comprehensive department-wide performance reviews, government program evaluations, and reviews of the State's contracting practices. These audits established benchmarks and measured performance, determined whether goals were met, reviewed compliance with laws, and analyzed contracts or disputes. The 14 financial audits assessed financial viabilities, evaluated fee-setting structures, or opined on the State's financial position and its compliance with state and federal laws. Lastly, the 3 reports on investigations exposed fraud, waste, and abuse, in a variety of areas such as falsifying claims and personal use of state resources.

All our audits, be they discretionary or mandated, and performance, financial, or investigative in nature, are conducted in a nonpartisan manner. State law specifi-

How are audits generated?

Mandated audits are typically written into a law creating or amending a program or entity, or can be incorporated in the annual Budget Act.

Discretionary audits are requested by any member of the Legislature via the Joint Legislative Audit Committee. This committee is made up of 14 members from the Assembly and Senate and is responsible for requesting, approving, and prioritizing approved audits based on available funding and number of mandated and previously approved audits.

cally prohibits the involvement of outsiders—even the governor or the Legislature—in the audit process. Thus, our findings, conclusions, and recommendations are based only upon reliable evidence: preconceived notions or personal opinions do not influence our work. We adhere to the standards of the auditing profession and exercise the highest standards of ethics.

We measure the success of our audits, not in the number of findings we have identified but in the nature and the value of the improvements in government programs and taxpayer savings we have stimulated. Our audit recommendations spurred many achievements and accomplishments the State reached during this year. We continue to recommend actions leading to millions of dollars in savings to the State. In

fact, the bureau has identified nearly \$930 million in savings to the State or other governmental entities since 1982.

Additionally, we identify opportunities for the State to increase revenues or curb costs. As a result of our audit report on the U.S. Border Patrol, in October 1997, U.S. Senator Diane Feinstein introduced federal legislation that would provide full reimbursement to states and local counties for costs incurred for emergency medical services provided to undocumented immigrants. Not only were our audits responsible for this federal legislation but also launched several pieces of California legislation to more economically and effectively meet program goals.

This year also witnessed changes in financial reporting for all state and local governments. The generally accepted accounting principals for investment report-

ing were completely revamped due in part to detailed recommendations in our report of Orange County's investment practices that led to its bankruptcy and similar practices in other counties. In fact, the bureau played a key role in restructuring the model. Additionally, the National Legislative Program Evaluation Society recognized us with the *Certificate of Recognition of Significant Impact* award for our Orange County report citing its significant impact on improving governmental operations and programs.

Also, for the first time, California received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. We advocated for years that the State develop and implement a system that would allow for a timely comprehensive annual financial report. Once the system was implemented by the State Controller's Office and our audit was delivered within six months of year-end, the State received the certificate.

These are just a few of the 1997 accomplishments and are evidence enough that a broad definition of auditing can produce such achievements. I trust that as you read through this annual report and our audit reports, you too will agree that auditing is more than just a narrow methodical review and examination; it requires a dynamic and forward-looking staff that bring years of audit experience, industry know-how, independent attitude, and an awareness of an entity's environment. Only with these resources can we offer innovative approaches for resolving or preventing problems and provide government officials with tools for embracing the future and the risks it brings. In turn, they can look for opportunities to work faster, better, and cheaper. It is through our creative and insightful approaches and recommendations that auditing serves as a catalyst, stimulating innovation and ensuring a responsive, accountable, and thriving government.



KURT R. SJOBERG
State Auditor

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1997 AUDIT HIGHLIGHTS

at a glance

- ♦ We issued 43 audit reports with over 200 recommendations
- ♦ Since 1994, we have generated \$321 million in savings, about \$9 for every \$1 of audit costs
- ♦ Federal legislation proposed from our U.S. Border Patrol audit
- ♦ State Auditor and staff serve on national councils and committees
- ♦ We influenced federal laws and industry guidelines regarding our profession
- ♦ California receives its first Certificate of Achievement for Excellence in Financial Reporting

THE BUREAU OF STATE AUDITS

conducts performance, financial, and investigative audits to promote efficiency and effectiveness in managing government programs and to assure public funds are spent appropriately. Our reports provide unbiased, accurate, and timely assessments of state and local governments' financial and operational compliance. They are designed to report on how government is doing its job and to look for more efficient and effective approaches for an entity to fulfill its mission.

Our audits are conducted with the State's and the taxpayers' best interests in mind, and as such, are not restricted to raising issues and making recommendations just to state entities but also to local and other governmental entities and to the Legislature when appropriate. We expect our auditors to think creatively and not to simply focus on a specific program, division, or department but rather to include a statewide and taxpayer perspective. We don't just report findings; we inform you of the issues, what they mean to you, and how to make things better.

During this past year, our audit reports dealt with tough issues impacting nearly every citizen and every aspect of California life. We reported on such things as the merger of two medical centers, unreimbursed medical costs for unauthorized immigrants, habitat conservation, disaster response, breast cancer research, and purchasing and warehousing in Los Angeles County.

In 1997, we released 43 audit reports, including the statewide single audit and the semi-annual reports of investigations. These audit reports comprise performance, financial, compliance, and investigative audit work in 47 state agencies, 4 local governments, and 8 other governmental entities. For every dollar the State spends on our office, we provide concrete returns in abundance by identifying and recommending actions the entities can take to save taxpayers millions of dollars. Our average return to you, since 1994, is \$9 for every dollar spent.

In addition to saving the State money, the Bureau of State Audits (bureau) continues to demonstrate the importance of an audit function and its changing role through numerous recommendations that improve public service; identify areas of weakness; propose solutions to government inefficiencies and ineffectiveness; uncover fraud, waste, and abuse; and provide crucial information for decision makers. We identified and reviewed numerous issues and made over 229 recommendations in these 43 audit reports.



During this past year, we reported on issues ranging from inadequate staffing to potential conflicts of interest. Reporting these issues heightens the awareness of all state officials who need to address potential problems. By knowing about the deficiencies common among those agencies we audit, officials are more apt to take a proactive attitude and be cognizant of any potential problems within their control. Taking steps to prevent deficiencies before these issues become widespread benefits the State and taxpayers. Findings most commonly shared by agencies were weaknesses in financial administration, overcharges caused by improper fee structures, inadequate policies or procedures, lack of performance measures, and inefficient and ineffective procedures.

Weaknesses In Financial Administration

Several departments we audited during the year experienced difficulties in administering financial information and resources, in billing appropriately for goods or services, or in entering into business transactions. For instance, the Department of Insurance did not bill for amounts due, used an improper hourly-billing rate, and inadequately followed up on overdue payments, thus losing

millions of dollars owed to the State. Further, two other agencies spent \$4.2 million more than necessary to acquire land or property rights and failed to deposit \$9.7 million in the State Treasury so the funds could earn interest for the State at a higher rate.

Overcharges Due To Improper Fee Structures

We also noted that several regulatory departments responsible for assessing fees for goods or services do not always calculate them correctly and overcharge those who pay for the goods or services. For example, the Department of Health Services generated \$7.6 million in excess from prenatal and newborn testing fees. Also, the Prison Industry Authority charged state agencies above cost for goods they purchased and netted \$9.9 million.

Inadequate Policies or Procedures

Still another common weak area at departments is the lack of or inadequate written policies and procedures. In many cases, this exposes entities to waste and abuse of state resources and inefficient, inconsistent, and ineffective delivery of government programs. For example, two agencies spent millions from a State Habitat Conservation Fund more than necessary to purchase land partly because the State has no clear written policy for real property acquisition through this fund. Additionally, the California State Lottery's Information Management and Services Division has huge work backlogs because it has no procedures for prioritizing service requests and system problem reports.



Lack of Performance Measures and Ineffective Systems

We found that several of the organizations we audited had not implemented systems to streamline processes, assist in effectively managing resources, and effectively measure their performance. For example, the Department of Fair Employment and Housing needs a time tracking system to provide the department with a better foundation for productivity measures, budget and staffing projections, and appropriate workload distribution. Also, a management information system would provide managers the necessary information to maximize revenue and reduce costs at the Veterans Home in Yountville. Further, an automated system would allow the Office of Emergency Services to handle the large volume of documents

generated by the disaster assistance and hazard mitigation programs more efficiently and economically.

Our Recommendations Provide Maximum Value

While it is easy to be critical, our reports provide maximum value because we make viable, productive recommendations to the entities we audit. These recommendations are valuable to all state officials and assist them in finding more proactive ways to manage government programs, because they are the product of our work in measuring, analyzing, benchmarking, and comparing with industry practices. These recommendations don't just suggest that entities comply with laws and regulations, they provide more specific and innovative approaches to fulfilling goals and to better serve taxpayers economically.



During 1997, we suggested improvements in billings and collections, staffing levels and resource commitments, costs of providing services, and fairly setting fees for services to ensure that government administers its finances appropriately. Further, we proposed that the State ensure it protects the taxpayers' best interests by seeking opportunities to obtain services from the private sector or other governmental entity when it is cost beneficial.

We made other recommendations to ensure policies and procedures and appropriate performance measures are in place. The policies should be clearly communicated to staff and properly enforced and monitored. Further, we urge agencies to establish specific procedures to measure their effectiveness in accomplishing their responsibilities and for reporting on the programmatic benefits.

It is important that business processes, manual and automated, are continually assessed to ascertain a streamlined approach in economically fulfilling each agency's mission. Some entities need to develop a timekeeping and job-tracking system to serve as a foundation for productivity measures, budget and staffing projection, and appropriate workload distribution. Others need to simplify processes, improve the effectiveness of current automated capabilities, and apply appropriate management techniques.

Our audit work not only took us to many state departments, but also to local and other governmental entities. In Los Angeles County alone we issued eight audit reports over the last two years. This county has a larger population than 42 states in the union and has the highest population of any other county in the nation. It directly provides welfare, health, and safety services and maintains public records. Because local and other government entities see Los Angeles as a harbinger of what is to come, our audits offer insight and solutions that can be relevant to their operations. Issues we identified during our reviews include:

- The Los Angeles Department of Children and Family Services (Report 96106) does not always comply with its own policies to evaluate the potential risk to neglected or abused children nor comply with other child safety procedures.
- Some administrators of the Los Angeles Unified School District do not follow written policies when dealing with employees accused of child abuse, thereby jeopardizing the rights of its employees and exposing itself to potential legal liabilities. Also, we found in Report 96121 that the district and five schools do not adequately manage their school checking and cash accounts and thus safeguard the spending of public funds.
- Over the past two years, Los Angeles County has faced continual fiscal crises due to property tax shifts, past labor and administrative agreements, and natural disasters. Since our initial audit report, issued in March 1996, where we found that the county was experiencing budget shortfalls, the county has met many challenges and has improved its financial position, but it has achieved this through many short-sighted, one-time fixes. Therefore, we continue to report that Los Angeles County's financial uncertainties linger as noted in Report 97018, issued in March 1997.



We Identify Needed Legislative Action and Seek Legislative Changes

In the course of our work, we occasionally identify state laws and regulations that actually hamper the potential success of a program both to operate as economically as possible and to effectively fulfill its goals. When we identify those instances or other opportunities where legislation can improve or unencumber a program, we make recommendations to the Legislature. During the 1996-97 legislative session, at least seven bills were approved that addressed our findings or implemented our recommendations.

In addition, our audit work was used in deliberating ten other bills. The table in Appendix A highlights some of the legislation approved during the 1996-97 session that was initiated or supported partly as a result of our audits.

In our 1997 audit reports, we recommend legislative action for the following:

- Petition the United States Congress to require the federal government to pay the full costs of providing medical services to unauthorized immigrants who are injured and would have otherwise been taken into custody by the U.S. Border Patrol. Further, if insufficient funds are allocated in the federal budget, Congress should increase the appropriation.
- Clarify whether state agencies must purchase from the Prison Industry Authority.
- Clarify the legal authority for specified agencies to use promissory notes for financing land acquisitions.
- Appropriate funds for the Department of Fair Employment and Housing to eliminate its current inventory of expired or expiring complaints and to install a local area network.
- Remove the specific authority allowing the Department of Health Services to deem as emergencies all regulations related to the prenatal and newborn screening programs and require it to directly file regulations with the Secretary of State's Office.



- Consider whether paying customers should continue subsidizing the Department of Motor Vehicles' costs of providing information to government entities.
- Adopt legislation that prohibits departments from misusing interagency agreements to obtain contract services without participating in a competitive process.

**We Must Forecast,
Anticipate,
and Catalyze Change**

Every audit we embark on is done with an eye towards doing things smarter, faster, and better. As you read through the summaries in the following sections of the audit and investigative reports we have issued during 1997, you will discover the depth of issues we undertake, the different facets of life we touch, and the corrective actions we recommend. Auditing is more than just a methodical examination and review. It involves innovative analyses and reviews; an understanding of the environment and nature of the business; and a continual nurturing of the knowledge base of cutting-edge theories, processes, tools, and best-industry practices. Auditing is an assessment of past, present, or future practices with proactive initiatives based on historical facts, current issues, available products, and new developments. It isn't enough to examine and review, but to be forward-looking and forecasting, anticipating, and catalyzing progress.

As you read through the next three sections where we have summarized some of our performance, financial, and investigative audit reports issued during 1997 and learn more about our organization in the last section of this report, we believe you will concur that auditing is anything but methodical.

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1997

PERFORMANCE AUDITS and EVALUATIONS

Performance auditing is an independent evaluation of an organization's operation with a focus on improving the future by learning from mistakes. Performance audits assist government to competently meet program objectives while minimizing the resources necessary to deliver the services. Along with these streamlining efforts, a performance audit may also determine whether management is fulfilling its promises to the taxpayers by effectively providing the services intended to meet the organization's goals and objectives.

You may ask how a performance auditor can make government more effective and efficient. How can they possibly understand a program better than its veteran managers? The performance auditor is a government business advisor with no preconceived ideas about an operation or investment in the way things are done. Unlike most program managers, a seasoned performance auditor has the advantage of working with numerous entities and diverse programs and thus develops expertise in a wide variety of processes and operations in just a few years time. They bring a myriad of government and private sector solutions to age-old operations and processes. The Bureau of State Audits (bureau) also has a unique advantage since it has been conducting mandated and requested performance audits since 1969.

We have categorized our recent performance audits into three areas: comprehensive performance audits (department-wide and specific), government program evaluations, and reviews of state contracting practices.

Department-wide
Comprehensive
Performance Audits

In a comprehensive performance audit, our goal is to determine how well a department is fulfilling its mission and objectives and the extent that its programs are providing the desired results. During a comprehensive performance audit, we also determine whether the department can accomplish its goals more efficiently by streamlining, economizing, or generally performing its operations quicker and more cheaply. These audits may also entail reviewing an entity’s strategic plan, performance-based measures, and budget. These audits can also be referred to as operational reviews or efficiency and effectiveness audits.

Over the last 12 months, we have issued five department-wide performance audit reports. Agencies reviewed include the Tahoe Regional Planning Agency; California State Lottery; and Departments of Insurance, Rehabilitation, and Fair Employment and Housing. These comprehensive performance audits cover a wide spectrum of areas and issues, and our findings and recommendations touch many aspects of the entities’ operations. Following we highlight four of these audits.

California
State Lottery

REPORT
96107.2

Information Technology Operations Need Correction and Because of Poor Scratcher Automation Decisions, It Unnecessarily Incurred Millions of Dollars in Contract Dispute Costs

In August 1996, we issued a report on the first phase of our comprehensive performance audit focusing on the California State Lottery’s (lottery) strategic planning efforts, administrative functions and expenses, mandated audit activity, and product distribution system for its off-line game (scratcher). In our report, issued in July 1997, we examined the lottery’s Information Management and Services Division (IMS division) and reviewed the contract and lawsuit between the lottery and its scratcher automation system supplier.

We found that the IMS division:

- Does not use common management tools to ensure it is effectively managing its resources and does not use adequate project management techniques to ensure its new systems and programs are completed properly and on time.
- Does not have a database structured to provide direct access to retailer sales information that would enable staff to adequately perform their jobs.
- Has a service request process and Help Desk that fail to adequately meet the needs of lottery staff.
- Cannot defend its staffing levels.

Additionally, the lottery's poor decisions and contract management strongly contributed to the failure of its scratcher automation project under the terms of the original contract, which resulted in at least \$7.5 million in contract dispute costs.

Recommendations

Our audit report recommended that the lottery take steps to justify its staffing levels and ensure its priority projects are completed by developing unit and division annual plans, implementing a timekeeping and job-tracking system, applying appropriate project management techniques, and continually assessing its practices.

We further recommended that the IMS division establish benchmarks to measure its performance and solicit feedback from other divisions. It should also establish procedures for prioritizing service requests, provide adequate training for resolving problems via Help Desk calls, and track the projects and their resolution.

Management of its Financial Affairs and Programs Needs Improvement

The Department of Insurance (department) is responsible for protecting California's insurance policyholders by regulating the insurance industry in the State and for protecting the general public and policyholders from discriminatory, unlawful, or fraudulent practices and from incompetence relating to the sale of insurance.

Department of Insurance

REPORT
96033

We focused our audit on several of the department's financial and program areas and discovered weaknesses in its fiscal and administrative operations that contributed to its problems of working with reduced financial resources. Most notably, the department:

- Could not plan and direct staff's yearly activities because it was late in establishing and communicating the internal annual budgets;
- Had cash-flow problems due to poor revenue collection;
- Had serious problems with its revenue billing and collecting system;
- Did not segregate certain funds continuously, promptly, or accurately, and therefore cannot support using those revenues exclusively for related expenditures;
- Inappropriately shifted program costs to other programs to avoid overspending the budget;
- Had a weak system for identifying and distributing assessment revenues; and
- Had significant work backlogs in two units and had not clearly demonstrated its compliance with statutory language when reducing staff.

Recommendations

To improve the management of its fiscal resources, we recommended that the department ensure adequate managerial oversight for all financial transactions and do the following:

- Promptly establish and communicate internal budget allocations that define performance expectations and monitor actual revenues and expenditures, holding all managers responsible for meeting their budgets.
- Promptly and accurately bill insurance companies for all fees and assessments and pursue insurance companies that do not quickly remit fees.
- Properly account for revenues and related expenditures from year to year.
- Examine the efficiency and effectiveness of its reviews of the insurance companies' annual financial statements and streamline the reviews, if appropriate.

- Continuously assess the adequacy of its system for prioritizing and completing investigations of consumer complaints and streamline the system when appropriate.
- Evaluate requests for rate changes of volatile lines of insurance by using at least three years of data.
- Seek an amendment to the codes to limit the nature and extent of insurance company examinations and ask the Legislature to interpret statutes when in doubt.

Poor Management Practices Limit the Effectiveness of the Business Enterprise Program for the Blind

The Department of Rehabilitation (department) administers the Business Enterprise Program for the Blind (program) to provide blind persons with remunerative employment, enlarge their economic opportunities, and stimulate them to greater efforts in striving to be self-supportive. The program provides training and facilities to enable qualified blind persons to operate their own cafeteria or other vending businesses throughout the State. Our review focused on the department's administration of the program, and found that the department does the following:

- Restricts program growth and limits the opportunities for qualified vendors by not aggressively promoting the program, establishing more profitable vending locations, improving existing locations, and exploring other business opportunities.
- Does not provide adequate vendor advice, training, and assistance.
- Inadequately administers program finances, impairing its growth and continued viability.
- Puts vendors and the State at risk because of certain tax-status issues related to the program's retirement plan, and in certain instances it treats vendors more like employees than independent contractors.

Recommendations

We recommended that the department take the following actions:

- Maximize vendor participation by consistently promoting the program, and identifying and establishing opportunities for vendors to operate more profitable vending locations.

Department
of Rehabilitation

REPORT
96031

- More effectively provide vendor advice and assistance through its ongoing training program and consulting services.
- Improve its administration of program finances by ensuring that vendors submit monthly reports and fees, delinquencies are promptly addressed, and vending machine commissions are collected and appropriately used.
- Minimize potential financial risk to both the vendors and the State by resolving retirement plan issues and determining the status of the vendors as state employees or independent contractors.

Department of
Fair Employment
and Housing

REPORT
96034

Its Complaint Processing Needs More Effective Management

The Department of Fair Employment and Housing (department) is responsible for enforcing the laws that promote equal opportunity in employment and that protect the public from discrimination related to housing and civil rights. We evaluated the department's management of discrimination complaints and the adequacy of its related information systems.

We found that the department does not promptly resolve complaints of discrimination, with as many as 30 percent of investigated complaints closing after the statutory time limit. As a result, the department loses its authority to enforce actions against responsible parties and the cooperation of respondents for these complaints.

We further disclosed in the report that delays in investigating and closing complaints are due to the department's limited use of automation, the lack of an expedited process for investigating and closing complaints, its poor time-tracking and job-costing system, and its noncompliance with its own policies.

Recommendations

We recommended that the department expedite the process for investigating and closing complaints by doing the following:

- Conduct abbreviated investigations while awaiting replies from respondents and categorize complaints based on potential for substantiation and level of difficulty.
- Enforce policies and statutory laws requiring consultants to attempt to negotiate predetermination settlements, to reply to

complaints, and to make recommendations for accusations within certain time frames.

- Improve its current automated capabilities and implement a time-tracking system to better measure productivity, project budget and staffing needs, and distribute workload.
- Authorize overtime, obtain additional limited-term staff, and develop a team approach for resolving these complaints to eliminate its backlog.

We also recommended that the Legislature appropriate funds for the department to implement procedures to process expired or expiring complaints and to install a local area network once it has an approved computing policy.

Specific Performance Audits

A specific performance audit can focus on a segment of a department or particular issue rather than reviewing department-wide operations. For example, our audit at the Department of Veterans Affairs is a comprehensive performance audit of a specific facility within a department.

The Veterans Home at Yountville Could Decrease Costs, Increase Revenues, and Improve the Quality of Care Provided to Its Residents by Utilizing Accepted Industry and Managed Care Techniques

California Department
of Veterans Affairs

REPORT
96035

The Veterans Home at Yountville (Yountville) in northern California is owned and operated by the State and provides health-related services based on the needs of veterans. We contracted with Ernst & Young LLP to review the medical and operational practices of Yountville. We concluded that Yountville:

- Incurs more than \$1.8 million annually in unreimbursed physician costs because of excess physicians on staff, low productivity among the physicians, inadequate billing for physician visits, or a combination of all three.
- Has a low utilization rate for its 26-bed hospital and is not cost-effective.

- Uses a higher-than-industry-average ratio of registered nurses compared to less costly licensed vocational nurses and nurses' aides.
- Could save approximately \$2.3 million annually by contracting with outside services.
- Lacks an adequate management information system.

Recommendations

The report recommended that Yountville should improve its medical operations by doing the following:

- Provide home health care to the veterans when appropriate.
- Consider using contracted physicians on a fee-for-service basis and eliminate three staff physician positions.
- Use more licensed vocational nurses and nurses' aides.
- Outsource certain services.
- Develop a management information system.
- Discontinue the operation of the hospital and obtain more hospital services through the local medical community.

If Yountville does not discontinue hospital operations, the Legislature should require a cost-benefit study of continuing the hospital and the hospital's costs to be reduced to statewide averages.

Evaluating Government Programs

Some of the audits we conduct involve evaluating an entity's performance in administering a particular government program or process within its responsibility. These government program evaluations are not as broad in scope as a comprehensive performance audit but essentially entail the same type of analysis on a smaller scale. We determine how effective the department is in fulfilling its responsibility to ensure the program is meeting the desired objectives in an efficient manner and whether it can accomplish the goals in a manner that saves time, resources, and funds. Government program evaluations also include determining an entity's effectiveness in implementing recommendations from previous audits.

We have issued 18 audit reports over the last 12 months that evaluate the performance of specific programs or processes or are follow-up reviews to previous audits. These audit reports address topics ranging from unreimbursed medical care by the U.S. Border Patrol to the Habitat Conservation Fund at various agencies. We highlight 4 of these audits in this section. Appendix C lists all the performance evaluations of specific programs or processes and the follow-up audits conducted during the specified time period.

Its Policies Cause San Diego County Health Care Providers To Incur Millions of Dollars in Unreimbursed Medical Care

U.S. Border Patrol
REPORT
96117

The primary mission of the United States Immigration and Naturalization Service (INS) is to prevent unauthorized immigrants from entering the country and to find and remove those who are living or working in the country illegally. Within the INS, the U. S. Border Patrol is responsible for maintaining control of the United States borders by preventing illegal crossings between points of entry.

We were asked to report on the financial impact to San Diego County health care providers of unreimbursed emergency medical care involving unauthorized immigrants and Border Patrol agents. It is the Border Patrol's policy to pay for emergency medical treatment provided only for those unauthorized immigrants already in its custody and to generally not take the injured into custody. Our audit found the following:

- Health care providers incurred at least \$2.9 million in unreimbursed charges for emergency medical treatment to unauthorized immigrants.
- Additional incidents are likely and could total between \$2 million and \$5.2 million in unreimbursed charges.
- Some unauthorized immigrants avoid custody as a result of their injuries.

Recommendations

We recommended that the Legislature petition the United States Congress to require the federal government to pay the full costs of emergency medical services when unauthorized immigrants

are injured and would have been taken into custody by the Border Patrol were it not for their injuries. Further, if funds allocated in the federal Balanced Budget Act are insufficient to assure California is fully reimbursed for its costs, we recommended that Congress increase the appropriation.

Habitat Conservation Fund

REPORT
95110

Some State Agencies Need To Do More To Ensure the Fund Is Used Appropriately

Five agencies annually receive moneys from the Habitat Conservation Fund (fund) established to acquire, restore, or enhance certain types of wildlife habitat. We reviewed the agencies' use of these funds and found that while three of the five agencies generally complied with state laws, two engaged in questionable or noncompliant practices, costing the fund \$4.2 million more for conserving land and failed to deposit millions in the State Treasury.

Further, another agency could not comply with spending goals because of budget constraints. Lastly, the Department of General Services, which provides appraisal, appraisal review, and land acquisition services, did not develop or disseminate written policies and procedures for land acquisition.

Recommendations

We made several recommendations to the noncompliant agencies including the following:

- Assure that grantees have necessary financial resources to complete a project, and meet the terms and conditions of the grant agreements.
- Ensure proceeds from the sale of state land and those held by a nonprofit organization on its behalf are directly deposited into the State Treasury.

Further, we recommended that the Department of General Services develop and distribute written policies and procedures for land acquisitions. We also recommended that the Legislature clarify the legal authority for agencies to use promissory notes in financing land acquisitions and require that proceeds from the sale of land originally purchased with the fund to be deposited into the fund.

The Office of Emergency Services (OES) is responsible for administering the State's emergency management program, which includes preparing for emergencies before they occur, organizing the immediate response to emergencies, and overseeing recovery from disasters after they have occurred.

We examined the OES's administration of the disaster assistance and hazard mitigation programs to identify aspects of those operations that could be improved to produce a more efficient and cost-effective process for resolving claims and grant applications. The audit revealed that the OES does not evenly distribute its management attention and resource commitments to its varied responsibilities, and its administration of recovery activities related to past disasters often suffers. As a result, the OES's recovery efforts are poorly planned, labor intensive, and lack automation. Further, when a disaster strikes, the OES diverts resources and thus delays disaster claims processing. Moreover, the OES's management of the hazard mitigation program is costly and needs simplification.

Recommendations

To improve management of the programs, we recommended that OES continue its efforts in implementing its information technology projects. Further, it should better plan, automate, and streamline its efforts to expedite California's recovery from past disasters by doing the following:

- In respect to its workload, standardizing recovery procedures, establishing clear priorities for such work and communicating them to staff, and measuring its effectiveness in accomplishing program responsibilities.
- Streamlining disaster recovery activities to reduce its workload and use its resources fully by applying a risk-based approach to inspections and reimbursements of certain projects, simplifying processes, and enhancing forms to better screen out ineligible projects.
- Managing more aggressively its process for seeking federal reimbursements by determining the total amount due, reconciling costs to ensure it fully recovers them, and making frequent drawdowns as allowed.

Prison Industry Authority

REPORT
97502

Has Failed To Take Significant Corrective Action on Many State Auditor Recommendations

The Prison Industry Authority (PIA) employs inmates, develops inmate work skills, and reduces the cost of California Department of Corrections (CDC) operations. The PIA operates manufacturing, service, and agricultural facilities at most of the CDC prisons and employs approximately 6 percent of the CDC institutional population.

We reviewed the actions taken by the PIA on the numerous recommendations we made in a previous audit in which we concluded that it had significant weaknesses in its financial management, cost-accounting system, and operations management, and that, along with the CDC, it did not measure or report on the benefits inmates or the State derive from the work program.

We found that although the PIA conducted a customer survey, incorporated performance measures in its strategic plan, and modified its annual report to the Legislature as we had recommended, it took little or no action to implement the cost-accounting system and other recommendations. We also noted that the PIA's approach to meeting delivery goals is one-dimensional and contributing to the large growth in inventories. Additionally, neither the PIA nor the CDC has focused on and cannot demonstrate the benefits inmates and the State derive from this program.

Recommendations

We believe that the recommendations made in the April 1996 report are critical to the PIA's successful operation as a business and as a penal program. We had recommended that the Legislature clarify the statutes governing the PIA, eliminate the conflicting purposes in the current law, require the PIA to price its products at cost for its state customers, measure and report on the benefits inmates derive from this program, and better manage its inventory levels.

The California Public Contract Code and the State Administrative Manual establish detailed requirements for planning the deliverables of contracts, soliciting bids from potential contractors, monitoring contractors' progress, and approving payment for services. The Department of General Services (DGS) has the legal duty for overseeing the review and approval of contracts entered into by state departments.

We are often asked to review the State's contracting practices and its compliance with applicable codes and rules. During fiscal year 1995-96, the DGS approved nearly 8,800 contracts and amendments totaling approximately \$6.3 billion. Because contractual goods and services compose such a large portion of state expenditures, efficient contract administration by state departments is necessary to the State's sound fiscal management.

We completed three audits involving contract reviews over the past year. As part of these reviews, we examined contracts to determine if departments used them appropriately to meet objectives, complied with the California Public Contract Code and other applicable laws and regulations, and made contracting decisions in the best interests of the State.

A complete list of the contract reviews we completed since July 1995 can be found in Appendix C. Following, we highlight one of the reports issued this year.

*Improvements Are Still Needed to Ensure the
Effective Use of Public Resources*

State Contracting

REPORT
96015

Report 96015 evaluated the State's compliance with laws and policies governing contracts. We reviewed consultant contracts, interagency agreements, and other contracts at five departments and identified deficiencies. We found the following:

- Generally, departments did not always adequately plan and manage contracts. Some departments restricted competition, inadequately monitored and evaluated contractor performance or services, and paid contractors without adequate evidence of goods or services.

- The California Department of Education incurred additional administrative costs by misusing interagency agreements to avoid competitive bidding.
- The State has not ensured that master service agreements are used to obtain the best prices.

Recommendations

To use state funds as economically as possible and improve the State's contracting process, departments should plan contracts to include all elements necessary to monitor contractor performance and to evaluate goods or services received. Specifically, requests for proposals should attract a good selection of qualified bidders, the contracts should contain defined payment provisions and deliverables, invoices should be supported and within contract amounts, and funds should be retained when required.

In addition, we recommended that the Legislature adopt new legislation prohibiting departments from misusing interagency agreements to obtain contract services from private consultants without participating in the competitive process.

1997 FINANCIAL AUDITS and REVIEWS

Financial audits include

financial statement and financial-related audits or reviews. The primary focus of a traditional audit of this type is the examination and verification of information provided through an entity's financial statements. This may result in an opinion on the "fairness" of the information presented or determine whether the entity has adhered to specific federal and financial compliance requirements. These audits may involve a review of the internal controls over financial operations and typically result in a letter to management identifying any weaknesses and recommending corrective action.

We perform the State's single audit and issue an opinion on the overall financial condition of the State. This audit is performed for several reasons. First, the Legislature, governor, and citizens need to be satisfied that the State's financial statements are presented fairly and that deficiencies in its fiscal systems are identified and corrected. Second, as a condition of the receipt of nearly \$26 billion in federal grant funds, the federal government mandates an annual single audit of California to oversee the State's administration of these federal programs. The State also needs to include a financial audit report in the official statements of prospective bond sales. These statements are then relied upon by underwriters, bond rating companies, and potential investors.

In addition to traditional financial statement opinion audits, we may be asked to determine the validity or reasonability of rates charged to ratepayers by regulatory entities. These audits typically entail reviewing the auditee's cost model to determine how charges are calculated and determining the accuracy of the actual cost data. We further review the auditee's system for collection, the actual cost data (cost accounting system), and the method used to distribute costs (cost allocation process).

Often, we are called upon to provide an independent assessment of the financial status of an entity or program to determine its financial viability. These examinations involve analyzing long-range plans, developing projections and analyzing forecasts, examining financial statements and statements for outstanding debt service, analyzing outstanding agreements or contracts, and analyzing variances between budgeted and actual amounts.

In the following sections, we highlight three types of financial audits and reviews we conducted between January 1, 1997, and December 31, 1997. We have grouped them into the following categories: financial viability assessments, evaluations of state charges, and traditional financial statement audits.

Assessing Entities' Financial Viability

During the 12-month period covered by this report, we performed financial viability analyses for the following entities: UCSF/Stanford, California Department of Alcohol and Drug Programs, and Los Angeles County. Because these analyses involve all areas within the entity, our findings could affect anything within the entity's control such as salaries and wages, revenue sources, legislation, or reclassification of positions.

The UCSF and Stanford Health Services REPORT 97122

The Proposed Merger Should Make the Partners Fiscally Stronger, Although the Extent of Financial Benefits Is Potentially Overstated

When the University of California San Francisco (UCSF) and Stanford University (Stanford) proposed to merge their medical centers and form a nonprofit public-benefit corporation, we were asked to review the financing and structuring of the proposed merger. Although both medical centers were individu-

ally sound financially, they were concerned that marketplace changes could prevent them from supporting their respective medical education programs while also reserving resources needed to support ongoing program requirements and initiatives at the medical centers.

Our report on the proposed merger to form UCSF-Stanford Health Care discloses that:

- The fiscal viability of neither medical center is immediately threatened, but because of the changing economics of health care services in the Bay Area due to managed care, to survive in the long-run, they need to enhance their value.
- The two medical centers are about financially equal in the merger: Stanford's contribution to the equity would be \$483 million (56 percent) and UCSF's contribution would be \$386 million (44 percent).
- Although the Stanford Medical Center will contribute a greater amount of equity, it also brings a greater amount of debt.
- While we agree that the merger should result in reduced costs and some additional revenues, the estimated financial benefits have been overstated. We estimate the net benefit from the merger to be \$56 million less than estimated by a third-party review.

Finally, we found that the estimated increased income from the merger is likely to help ensure that the present level of funding from the medical centers to the respective medical schools should continue in the future, and if the merger is very successful, the medical schools could experience increased funding from the merged entity.

Determining
Fairness
of State Charges

Still another type of financial-related audit we conducted during this period was to review cost models and determine whether charges to ratepayers are reasonable and equitable. Specifically, we reviewed the reasonability of charges at the Departments of Motor Vehicles, Health Services, and Alcohol and Drug, and at the Public Utilities Commission.

Overstated Costs for Registration Information Have Resulted in Inequitable Charges to Customers

The Department of Motor Vehicles (DMV) fulfills a variety of responsibilities that include regulating the issuance and retention of driver's licenses, protecting the public interest in vehicle and vessel ownership, and providing personal identification services to drivers and nondrivers. State law allows the DMV to sell registration and licensing information but requires it to charge sufficient fees to at least cover the cost of providing the information. We reviewed the DMV's process for establishing the fees it charges and found that the DMV did the following:

- Overstated its costs for providing vehicle registration and licensing information in fiscal year 1989-90 and used them to establish inequitable fees.
- Has not reassessed its costs or revised its fee schedule during the last seven years.
- Has subsidized its costs of providing information to government customers through fees charged to private entities.
- Generated \$16.5 million annually in profits from sales to private entities who purchase less than one-third of all information products.

Recommendations

To establish reasonable and equitable fees for its registration and licensing information, we recommended in Report 96116 that the DMV update its cost calculations and compile reliable volume data for calculating unit costs, reassess and update its costs periodically, and modify the fee schedule when necessary. We further recommended that the DMV adhere to its fee schedule when charging customers for registration information.

We also recommended that the Legislature consider whether it is reasonable for paying customers to continue subsidizing the DMV's costs of providing information to government entities.

The Genetics Disease Branch's Fee Setting, Billing, and Collection Processes Need Improvement, and Its Regulations Do Not Warrant Emergency Status

Department
of Health Services

REPORT
97105

We performed a comprehensive review of the Department of Health Services' (department) Genetic Disease Branch (branch), which provides prenatal and newborn screening services to detect genetic disorders and follow-up counseling and diagnostic services. Our report revealed that the branch uses inadequate methods for fee setting, billing, and collection, and as a result, had done the following:

- Charged the public fees that exceeded costs by 13 and 12 percent, which translates to excess fees of \$7.6 million for the year under review and an additional \$4.8 million for subsequent fiscal years.
- Wrote off \$9.7 million in uncollectable fees since July 1993.
- Neglected to bill the Medi-Cal program for \$1.1 million, which may now be uncollectable because of time limits.
- Kept \$775,000 in overpayment fees because it returns overpayments only when requested.
- Failed to seek competitive bids for the laboratory testing contracts it awarded over a six-year period.

Additionally, we found that the department's emergency regulatory authority is unnecessary and in the past, has been used for administrative issues rather than true emergencies.

Recommendations

We recommended that the branch take the following actions to improve its fee setting, billing, and collection processes:

- Establish procedures to monitor and analyze the program costs and revenues.
- Reduce prenatal fees to reflect the program costs, examine all program fees yearly, and adjust patient fees when appropriate.
- Require patients to select one of various payment options at the time of testing.
- Bill more health plans directly for prenatal testing fees.

- Establish a process for attaching the state tax refund of patients who do not pay their bills and develop procedures to refund any overpayments.

Further, the Legislature should make modifications to state laws to ensure the department adopts emergency regulations only when necessary.

Traditional Financial Statements

The Bureau of State Audits has issued seven financial audit reports this year. In this section, we have highlighted our Single Audit Report for fiscal year 1996-97, Report 96002, in which we note that the State continues to experience problems in accounting and administrative practices that affect its internal control system and that result in noncompliance with some state and federal regulations. Although these weaknesses are not individually significant, they have a cumulative effect on the accuracy of reported financial information about efficiency, effectiveness, and propriety of the State's operations.

Inadequacies in internal controls resulted in lost revenues, unnecessary expenditures, inappropriate use of the public's funds, operational inefficiency, inaccurate financial information, and other miscellaneous problems. The following are examples of our concerns with internal controls:

- The cash management practices of the Department of Consumer Affairs, the California Department of Education, and the Department of Justice resulted in potential lost interest revenue of as much as \$403,000 for the State.
- The Department of Health Services did not attempt to recover overpayments of approximately \$2.5 million to providers of supplies for an extended period of time.
- The Department of Real Estate incurred administrative expenses for collection activities that are unlikely to result in collection of the amounts owed.
- Inaccurate accounting methods at some departments resulted in actual or potentially inaccurate financial information.
- Seven control problems at three departments resulted in assets not being protected, employees not receiving leave

credit to which they were entitled, or programs not being operated as required by statute.

We also noted weaknesses in the State's system of controls over cash management, cost allocation, financial reporting, and subrecipient monitoring related to federal grant programs administered by many departments. Examples of the more significant issues we found include the following:

- The State did not always comply with federal regulations for the Cash Management Improvement Act. As a result, for certain federal programs governed by default procedures, the State overstated the interest it owed to the federal government by approximately \$148,200.
- The State improperly allocated personal service costs for some of the federal programs it administers. In addition, the State does not always comply with the requirement to certify or document personal service costs charged to federal programs.
- The State did not always ensure that its federal financial reports were accurate and reconciled to the appropriate accounting records. Differences noted were as much as \$23 million for the Refugee and Entrant Assistance State-Administered Program grant at the Department of Health Services.
- The State did not always sufficiently monitor the audit reports of nonprofit subrecipients, nor did the State always take steps to ensure that audit findings were resolved promptly after the receipt of the audit report. For example, the Office of Emergency Services did not have a system to identify the nonprofit subrecipients that should have submitted an annual audit report during the fiscal year.

We addressed these and other concerns to the Department of Finance (DOF), which issued an Audit Memo concerning the results of the Single Audit. Each department for which we identified weaknesses is responsible for developing a corrective action plan. The DOF will monitor the corrective actions included in their responses to our findings. We made 98 recommendations to the state agencies we audited to help correct various problems we found. Some recommendations related to reducing the risk of fraud and abuse, some to correcting poor

fiscal practices, and others to ensuring compliance with state and federal regulations. Implementation of our recommendations can improve the operating efficiency and performance of state agencies.

1997 INVESTIGATIONS

We investigate allegations

related to improper activities by state employees or agencies. These allegations stem mainly from our toll-free “whistleblower hotline” for reporting fraud and abuse in state government. Since its inception in 1980, the hotline has received tens of thousands of calls spurring investigations that uncovered serious and costly violations of state laws and regulations. An investigation may also result when our auditors, while on another assignment, become aware of inappropriate or suspicious activity that may fall under the Reporting of Improper Governmental Activities Act (act).

The act defines improper governmental activity as any activity by a state agency or state employee during the employee’s official duties that violates any state or federal law or regulation; is economically wasteful; or involves gross misconduct, incompetence, or inefficiency.

During a 12-month period, the Investigative Unit received 5,200 calls. We established new case files for 173 of these; 1,012 of the calls related to previously established files. We opened 64 additional case files as a result of mail complaints and 10 more from walk-in complaints for a total of 247 case files opened. The following table illustrates our follow-up efforts by identifying corrective action taken for previously substantiated reported investigations.

TABLE 1

Corrective Actions Taken on Publicly Reported Investigations During 1997

ACTION TAKEN	INSTANCES
Prosecution pending	2
Termination	2
Resignation	2
Demotion	1
Suspension	2
Admonishment	8
Recoverable charges	5
Controls/policies improved	12

Since January 1997, we have issued two semi-annual reports relaying the results of 24 investigations and another report on a single investigation. The investigative findings totaled \$527,000. In the following sections, we summarize the single investigation report and highlights from the semi-annual reports.

Teale Data Center INVESTIGATIVE REPORT I-960159

Conflicts of Interest, Illegal Acceptance of Gifts, Failure to Report Gifts, and Improper Reimbursement of Expenses at the Teale Data Center

We investigated allegations that two Stephen P. Teale Data Center (Teale) officials violated provisions of the Political Reform Act of 1974, including those related to accepting gifts and disclosure. The complainant alleged that the first official improperly claimed reimbursement for educational expenses and that Teale improperly reimbursed business expenses incurred by the two officials. Our investigation substantiated the allegations and revealed the following facts:

- From 1993 to 1996, the first official had conflicts of interest when awarding \$5.2 million in contracts and purchase orders to four vendors after accepting \$3,176 in prohibited gifts from them. The official failed to disclose these and other gifts.
- The other official failed to disclose prohibited gifts totaling approximately \$1,000 from two vendors.
- The first official improperly claimed and was reimbursed approximately \$2,000 for educational expenses.

- Teale improperly paid approximately \$1,550 for luxury lodging, golf, and other expenses incurred by the two officials while attending conferences hosted by information technology vendors.

In response to these improprieties, the Business, Transportation and Housing Agency (BT&H) has taken the following steps:

- Demanded that the two officials immediately reimburse the State for expenses improperly paid by Teale. The first official reimbursed Teale in the amount of \$2,930 for both travel and tuition expenses. The other official reimbursed Teale in the amount of \$195 for travel expenses.
- Directed that both officials and other employees at Teale responsible for processing travel claims receive additional training concerning expenses and the reporting of gifts.
- Directed its general counsel to review Teale's conflict-of-interest code and statement of incompatible activities to ensure they are in full compliance with state ethics laws.

Because the Fair Political Practices Commission (FPPC) is responsible for enforcing the Fair Political Practices Act, BT&H is awaiting the outcome of the FPPC's review before deciding whether it will take disciplinary action against the officials based on violations of the conflict-of-interest law.

Subsequent to the issuance of our report, the first official resigned from state service.



*Investigations Resulting From Complaints
Reveal Abuse of State Resources, Conflicts of Interest, and
Falsified Documents*

Reports I97-1 and I97-2 report 23 cases substantiated during the period of September 1, 1996, through August 31, 1997, and provide follow-up for corrective action taken on previously reported investigations. These reports cover various types of violations, including theft of public funds, personal use of state resources (computers, phones, fax machines, or time), improper compensation of overtime, improper contracting practices, falsification of attendance reporting and travel expenses, failure to perform mandated duties, and violations of conflict-of-interest laws.

**Investigations of
Improper Activities**

**INVESTIGATIVE
REPORTS
I97-1 and I97-2**

We found that the most common abuses were false claims and personal use of state resources. Employees most commonly filed false claims for travel, education, relocation, and professional license fees. Below are typical examples of these abuses:

- A Department of Social Services employee filed false travel claims, questionable lodging expenses, and unnecessary meal and incidental expenses.
- An employee of the Division of the State Architect improperly received reimbursement for travel expenses, relocation expenses, and professional license fees from 1993 through 1996.

The state resources most commonly used by subjects for their personal use included computers, telephones, and property. The following are examples from our 1997 investigative reports:

- A Department of Transportation supervisor used state time, computers, telephones, and employees to conduct his own business from 1989 through 1995.
- An employee of the Department of Water Resources improperly used a state computer to access files on the Internet for her personal gain and placed at least 822 personal telephone calls at the State's expense.
- An employee of the 40th District Agricultural Association improperly supervised his son and allowed him to store personal equipment on district property.

Departments' corrective actions included terminating, demoting, suspending without pay, and prosecuting certain employees. Some departments issued warnings and letters of reprimand to certain employees and required employees to reimburse the State for the cost of personal use of state resources. Other departments issued departmental memos on policies concerning the use of state property and provided counseling to employees.

We also reveal our follow-up efforts for previously substantiated and reported investigations. For example, we had previously reported that an office technician from the Department of Personnel Administration (DPA) stole at least \$381,000 held by the State on behalf of three plan participants. With the assistance of DPA and Great Western Bank, we substantiated that the same office technician stole an additional \$19,700 from a



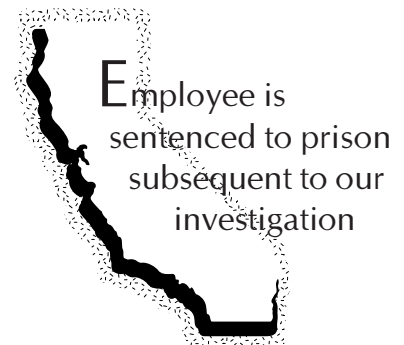
fourth victim in 1984. The stolen funds were from the Savings Plus Program, a plan administered by the DPA. Our follow-up investigation, in Report I97-1, found the following:

- The employee falsified a Beneficiary Payment Election form and submitted it to DPA to receive a lump-sum payment of the victim's funds.
- According to DPA's estimated calculations, if the \$19,700 stolen had remained in the plan, the current value of the account would be over \$48,960.
- Combined with the potential liability for the previous thefts from the other victims, the employee created a potential liability for the State, as of December 31, 1996, of over \$691,660. Because of lost interest and earnings, this figure will continue to increase by approximately \$3,000 per month until the State restores the accounts.

Subsequent Events

The office technician resigned from state service in September 1996. On January 31, 1997, the former employee was sentenced to three years in state prison and ordered to pay restitution of \$691,596.

Since the thefts occurred, the DPA has strengthened its controls over the funds in the deferred compensation plan.



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1997 ORGANIZATIONAL HIGHLIGHTS

The wide spectrum of audits we conduct makes some uneasy as to the auditor's ability to become truly adept in assessing each and every type of situation we encounter. Yet, as the results of our audit reports show, quite the opposite is true. It is because of the magnitude of issues and entities we deal with and have dealt with in 41 years of the existence of the Bureau of State Audits (bureau), formerly the Office of the Auditor General, that we offer results-driven solutions. Our experience in working with many business processes and environments, our knowledge in management tools and benchmarking, continual training in relevant and current topics, our nonpartisan role in auditing, adherence to strict audit standards, and our commitment to self-improvement makes us a prominent audit team. It makes us a team quick in identifying needed solutions or approaches that, if implemented, better serve the taxpayers, save the State millions of dollars, streamline operations, and catalyze innovation enabling California to progress. This section of the annual report provides additional background on the bureau and highlights some of its organizational achievements in 1997.

The bureau has gained an impeccable reputation in performing the State's audits for more than 40 years not only by Californians but also nationally and internationally. Recognizing that state managers need to be held accountable for spending public funds and operating government programs, the Legislature established the bureau in 1993 as the successor agency to the Office of the Auditor General. Chapter 12, Statutes of 1993, also laid out the Legislature's belief that governmental audits by the bureau are critical to the system of checks and balances expected by Californians. The Legislature trusts the bureau to audit entities and report back, whether good or bad, with sound conclusions and recommendations based upon reliable and unbiased evidence.



On a national level, the bureau received recognition when it was awarded the National Legislative Program Evaluation Society's Certificate of Recognition of Significant Impact for 1997. This certificate recognizes the bureau's report, *"Orange County Treasurer's Investment Strategy Was Excessively Risky and Violated the Public Trust,"* as having significant impact on improving governmental operations or programs. Additionally, the state auditor participated on a task force with the Governmental Accounting Standards Board. This task force proposed standards based on our audit report that ultimately revamped investment reporting for state and local governments.

The bureau's management is active on several state and national committees to ensure they keep abreast and influence audit practices. The organizations in which bureau staff serve are the National State Auditors Association (president-elect), the National Association of State Auditors, Comptrollers and Treasurers (executive board), the Association of Government Accountants (executive board member), the National Legislative Program Evaluation Society (chairperson), the Intergovernmental Audit Forum (state representative), the American Institute of Certified Public Accountants (committee members), and the Advisory Council on Government Auditing Standards (committee member).

Over the last year, members of the bureau's staff have been recruited for speaking engagements at various conferences and audit organizations across the nation. The over 50 speaking engagements have included topics on performance auditing,

fraud investigations, single audit, strategic planning and emerging risks, government investing, auditing, and the financial reporting model.

We also participated in conducting and hosting training for international visitors. We worked with Golden Gate University to provide training for visitors from Indonesia, Malaysia, Russia, and Latvia. In addition, other high-ranking government officials from Indonesia visited our office to learn about performance and financial audits.

The State Auditor Is Nonpartisan

Although the bureau technically resides in the executive branch of state government, statutes ensure its independence, and the bureau is therefore free from both legislative and executive control. The bureau is headed by the state auditor, who has sole responsibility for exercising its powers and duties.

The state auditor is appointed to a four-year term by the governor from a list of three qualified individuals nominated by the Joint Legislative Audit Committee by a vote of at least a majority of the committee members from each house of the Legislature. The Legislature's role is limited to requesting, approving, and prioritizing approved audits. Neither the governor nor the Legislature may influence audits in any way, and the state auditor may only be removed for cause by concurrent resolution of the Legislature.

State law specifically prohibits the involvement of any party in the audit process, including the Legislature or the governor. The state auditor and his staff may not provide briefings or progress reports during fieldwork or report processing, or be influenced on the audit or final report outcome. By statute, the bureau must release to the public all completed mandated audits no later than 24 hours after delivery to the Milton Marks Commission on California State Government Organization and Economy (commission), and release all other audits upon completion. State law provides the commission, an independent 13-member body, a ministerial role, and the bureau's organizational placement and structure ensures that it is independent to audit the executive and judicial branches of government under generally accepted government auditing standards.



Strict Audit Standards

Section 8546 of the California Government Code requires the state auditor to conduct audits in compliance with the Government Auditing Standards as promulgated by the Comptroller General of the United States. The Statements on Auditing Standards issued by the American Institute of Certified Public Accountants are incorporated in the Government Auditing Standards. All the bureau's auditors are responsible for adhering to these standards in their conduct and performance of all audits.

The bureau also participates in an external quality control program performed by similar or peer audit organizations. This external review is performed every three years and determines whether the bureau's audit work fulfills the professional independence and technical requirements of Government Auditing Standards. The bureau's financial statements and operations are also audited annually to ensure that we meet all accounting standards. We continually receive "unqualified opinions"—the highest possible rating—attesting that our operations and audit work meet all applicable standards. See Appendix D for copies of these opinions.

The Bureau's Organization

The state auditor continuously assesses the bureau's operations just as he would an auditee and ensures it incorporates best practices and innovative approaches in performing its functions as effectively and economically as possible. To assist in these efforts, the bureau developed a strategic management plan that sets out its mission, philosophy, goals, objectives, and performance indicators. The bureau's reason for existence is described as follows:

The California State Auditor promotes the efficient and effective management of public funds and programs by providing to citizens and government independent, objective, accurate, and timely evaluations of state and local government activities.

The bureau achieves its mission through a variety of goals, objectives, performance indicators, and strategies that change

and expand as the organization continues to strive for excellence. Listed below are the bureau's current goals:

- ❖ To promote the efficient operation of government through independent, objective, and unbiased audits.
- ❖ To make recommendations that save money, avoid costs, streamline operations, or improve government.
- ❖ To hold accountable public officials and other employees who manage and administer public funds and programs.
- ❖ To provide pertinent information to government leaders and the public on the relevancy and effectiveness of programs, laws, rules, and regulations.
- ❖ To provide assurance to creditors and the federal government that the State's financial position is fairly presented and to the federal government that the State complies with federal program requirements.
- ❖ To continually reassess the bureau's operations and foster a professional, competent, and motivated team environment to ensure the excellence of the services we provide.

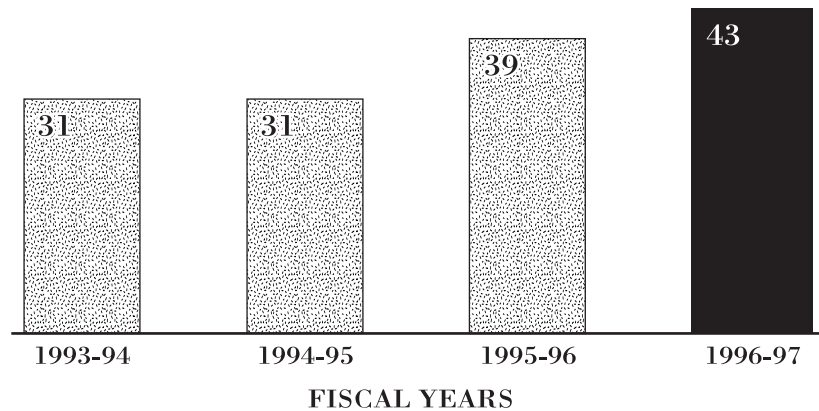
The bureau will fulfill its mission to meet or exceed its goals with its resources. Its only office, located in Sacramento, currently has 117 employees, 40 percent fewer than its predecessor.

The state auditor employs a pooling concept to maximize its use of resources. Rather than having a division for financial and performance audits as its predecessor did, the bureau has only one audit division. All auditors are trained to perform all types of audits. The pooling concept results in a challenged, well-rounded, efficiently used audit staff; an increased number of audits performed per auditor; and a more cost-efficient operation. Figure 1 compares the number of reports issued by the bureau over the last four fiscal years.



FIGURE 1

Number of Audit Reports Issued



Highly Competent
and Professional Staff

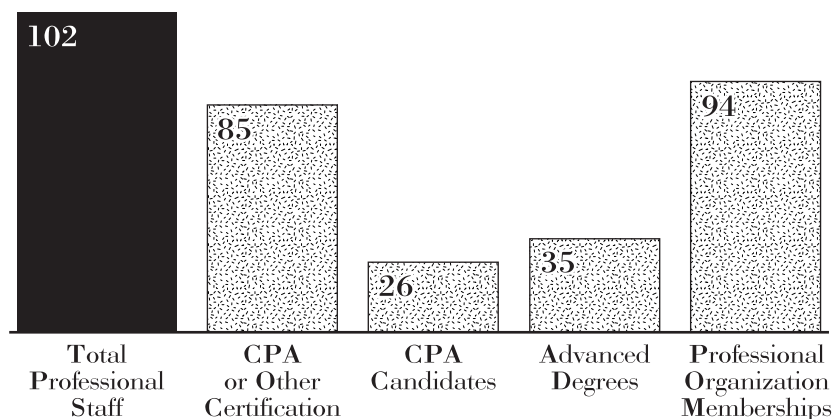
The bureau has 102 professional audit, electronic data processing (EDP), and investigative staff and 15 administrative, personnel, and support staff. We actively recruit the most qualified and competent individuals for employment. At a minimum, all of the audit, EDP, and investigative staff hold a bachelor's degree, while 35 hold a master's degree or higher. Some of our recruits come to us directly from universities, but quite a few already have excellent relevant experience from public accounting firms, private enterprise, or other audit organizations.

Not only are staff technically proficient and highly qualified when hired, but they receive additional training through the bureau's professional development program. As well as on-the-job training, new employees attend a series of courses that provide a firm foundation for their professional tasks. We also maintain and build competency by providing all staff with at least 80 hours of training every 2 years. This training ensures that our staff meet the continuing education requirements of all applicable auditing standards. Many of the courses are developed by bureau staff and pertain to auditing, accounting, and other current issues, thereby creating specialists within our office. In addition, audit assignments are monitored to ensure that staff members receive diverse experiences to enable them to become well rounded for the variety of audits the bureau conducts. Staff members undergo yearly career counseling and periodic performance evaluations.

The bureau strongly encourages staff to become certified public accountants (CPAs) or to obtain other certifications, or both. At present, we have 51 CPAs; 36 CPA candidates; 22 certified government financial managers; and 8 staff members who hold internal auditor, fraud examiner, or other professional certification. Staff are also encouraged to join professional organizations to stay on the cutting edge of their profession; 68 of the bureau's staff are members of at least one professional organization.

FIGURE 2

Professional Staff Certifications, Degrees, and Memberships



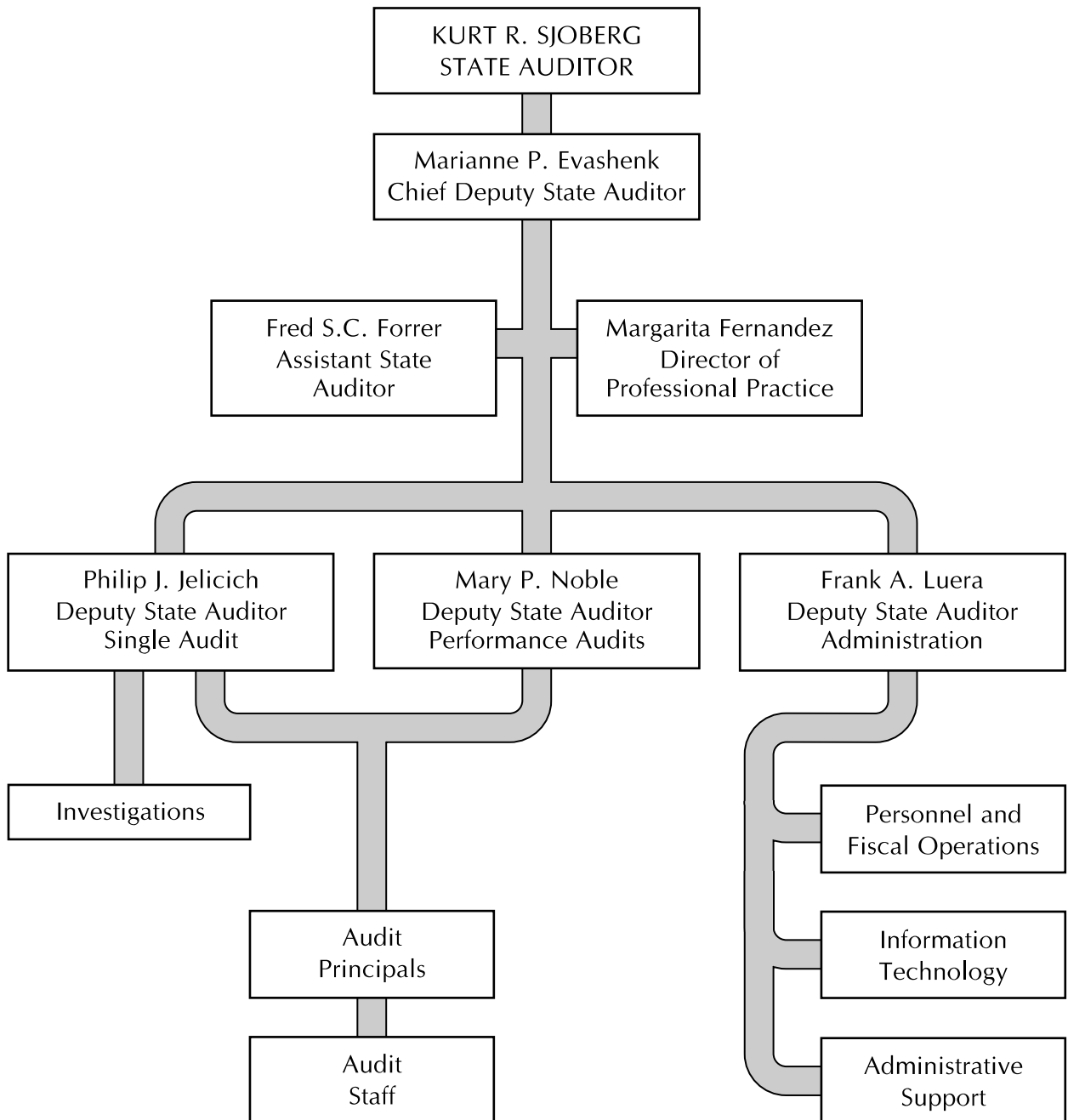
Professionally Serving
the Citizens
and Government
of California

The bureau's strategic focus and forward-looking approaches ensure that it will sustain its professionalism in serving the citizens and government of California. It is wholly committed to considering the State and taxpayers' interests in independent, objective, accurate, and timely evaluations of state and local governments' activities and audit reports with innovative and relevant recommendations to catalyze California's progress.

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APPENDIX A

Bureau of State Audits' Organization Chart



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APPENDIX B

Legislative Action Subsequent to the Issuance of Bureau of State Audits Reports 1996-97 LEGISLATIVE SESSION

REPORT NUMBER	REPORT TITLE	LEGISLATIVE ACTIONS
94021	Department of Social Services: <i>The Department's Approach to Welfare Automation Is Too Costly and Unlikely To Succeed</i> (April 1995)	Chapter 627, Statutes of 1997, frees Tulare County from paying the balance of a liability to the State resulting from the fiscal monitoring review. As part of this audit, the Bureau of State Audits focused on the implementation of an automated welfare system in Tulare County.
96033	Department of Insurance: <i>Management of Its Financial Affairs and Programs Needs Improvements</i> (March 1997)	This audit found that poor revenue collection practices could lead to a significant deficit by year's end. In response to our findings, Chapter 798, Statutes of 1997, provides that certain uncontested departmental billings not paid to the department within 45 days of the invoice date be subject to a late charge. Also, this statute outlines a procedure for an insurer to contest a billing under which late charges for a portion of the billing would be levied.
96033	Department of Insurance: <i>Management of Its Financial Affairs and Programs Needs Improvements</i> (March 1997)	Among other things, our audit report recommended that the Department of Insurance's (DOI) Consumer Services Division be restored. Chapter 239, Statutes of 1997, diverts unclaimed Proposition 103 refunds for specific purposes including restoring the DOI's consumer services and investigations. The statute requires that unclaimed refunds also be used to repay a loan made to the DOI from the General Fund.
95110	Habitat Conservation Fund: <i>Some State Agencies Need To Do More To Ensure the Fund is Used Appropriately</i> (April 1997)	Specifically, the audit notes that Chapter 309, Statutes of 1997, prohibits the Wildlife Conservation Board from exceeding the fair market value of property when acquiring property other than by eminent domain. We reported that the Department of General Services paid \$1.8 million more than a nonprofit organization paid for land.

REPORT NUMBER	REPORT TITLE	LEGISLATIVE ACTIONS
93109	Trade and Commerce Agency: <i>The Effectiveness of the Employment and Economic Incentive and Enterprise Zone Programs Cannot Be Determined</i> (November 1995)	Chapter 609, Statutes of 1997, limits the Trade and Commerce Agency to designating only two Manufacturing Enhancement Areas requested by the governing board of cities, each of which must meet certain specified criteria. This limitation is placed because our report concluded that available data was insufficient to determine the effectiveness of the enterprise zones.
96101	University of California: <i>The Award and Administration of the Tobacco and Breast Cancer Research Grant Programs Need Improvement</i> (April 1996)	This audit concluded that the University of California at San Francisco needed to improve its oversight of the Breast Cancer Research Program. Subsequently, the Legislature adopted Chapter 337, Statutes of 1997, which allocates Breast Cancer Research Fund (fund) money to the University of California rather than the Department of Health Services, extends the fund's sunset by five years, requires annual fund contributions to be at least \$250,000 for the fund to be listed on tax returns, and encourages tax preparers to inform taxpayers that they can make voluntary contributions to certain funds on their tax returns.
96102	California Department of Food and Agriculture: <i>Improvement Is Needed in the Oversight of Market Enforcement Activities</i> (July 1996)	Chapter 696, Statutes of 1997, provides for reforms of the Market Enforcement Branch of the Department of Food and Agriculture. This statute was written in response to our finding that the Market Enforcement Branch did not consistently enforce fair marketing practices.

APPENDIX C

Bureau of State Audits Reports ISSUED JULY 1, 1995 THROUGH DECEMBER 31, 1997, GROUPED BY TYPE OF AUDIT

TYPE OF AUDIT	REPORT NUMBER	DATE PUBLISHED	TITLE OF REPORT
Department-wide Comprehensive Audits	94106	10/11/95	Department of Fish and Game: <i>Administrative Processes Need Improvement</i>
	93109	11/1/95	Trade and Commerce Agency: <i>The Effectiveness of the Employment and Economic Incentive and Enterprise Zone Programs Cannot Be Determined</i>
	95114	1/31/96	Office of Emergency Services: <i>Has Met Most of Its Emergency Management Responsibilities Despite Administrative Problems</i>
	95106	4/9/96	Prison Industry Authority: <i>Statutory and Cost Control Problems Adversely Affect the State</i>
	95118	4/24/96	Trade and Commerce Agency: <i>More Can Be Done To Measure the Return on the State's Investment and To Oversee Its Activities</i>
	96102	7/2/96	California Department of Food and Agriculture: <i>Improvement Is Needed in the Oversight of Market Enforcement Activities</i>
	96107.1	8/22/96	California State Lottery: <i>Opportunities Exist To Improve Planning, Reduce Administrative Costs, and Increase Sales Efficiency</i>
	95124	10/3/96	California Conservation Corps: <i>Further Revisions Would Improve Its Performance-Based Budgeting Plan</i>
	96034	1/16/97	Department of Fair Employment and Housing: <i>Its Complaint Processing Needs More Effective Management</i>
	96119	2/7/97	Tahoe Regional Planning Agency: <i>Addressing Broader Needs of the Lake Tahoe Region and Streamlining Regulatory Processes Will Increase Effectiveness</i>
	96033	3/13/97	Department of Insurance: <i>Management of Its Financial Affairs and Programs Needs Improvements</i>

TYPE OF AUDIT	REPORT NUMBER	DATE PUBLISHED	TITLE OF REPORT
Department-wide Comprehensive Audits - continued	96031	8/27/97	Department of Rehabilitation: <i>Poor Management Practices Limit the Effectiveness of the Business Enterprise Program for the Blind</i>
	96107.2	7/31/97	California State Lottery: <i>Information Technology Operations Needs Correction and Because of Poor Scratcher Automation Decisions, It Unnecessarily Incurred Millions of Dollars in Contract Dispute Costs</i>
Evaluations of Government Programs	94117	7/27/95	Department of Health Services: <i>The Orange County District Office Needs to Further Improve Its Oversight of Health Care Facilities</i>
	95011	8/1/95	Department of Health Services: <i>Drug Treatment Authorization Requests Continue to Increase</i>
	94111	8/2/95	Department of Education: <i>Has Not Spent Millions for Child Care and Development Services</i>
	94101	11/21/95	Department of Forestry and Fire Protection: <i>A Review of Allegations Concerning the State's Management of the Federal Excess Personal Property Program</i>
	94120	11/29/95	CSU and UC: <i>Campuses Generally Provide Access for Students With Disabilities</i>
	94123	1/4/96	California Community Colleges: <i>The Chancellor's Office Inadequately Controlled Its Economic Development Program and, Along With the Department of Education, Circumvented State Contracting Procedures</i>
	96011	1/30/96	Department of Health Services: <i>Drug Treatment Authorization Requests Continue To Increase</i>
	95014	2/29/96	California Transportation Commission and Department of Transportation: <i>The State's Use of Transportation Funds Generated by the 1989 Transportation Blueprint Legislation</i>
	95109	3/27/96	Department of Health Services: <i>Has Not Collected \$40 Million in Supplemental Rebates From Drug Manufacturers</i>
	96101	4/15/96	University of California: <i>The Award and Administration of the Tobacco and Breast Cancer Research Grant Programs Need Improvement</i>

TYPE OF AUDIT	REPORT NUMBER	DATE PUBLISHED	TITLE OF REPORT
Evaluations of Government Programs - continued	96012	8/1/96	Department of Health Services: <i>Drug Treatment Authorization Requests Continue To Increase</i>
	93023	9/12/96	Child Support Pilot Projects: <i>Effectiveness Cannot Be Determined With Existing Data</i>
	96106	10/23/96	Los Angeles County: <i>The Department of Children and Family Services Can Improve Its Processes To Protect Children From Abuse and Neglect</i>
	95111	11/14/96	Department of Transportation: <i>Further Improvements Can Be Made in the Management of Properties Along the State Route 710 Right-of-Way</i>
	95125	11/19/96	Statewide Redevelopment Agencies: <i>Broad Project Discretion and Inadequate Information Make Comparison and Evaluation Difficult</i>
	97011	1/28/97	Department of Health Services: <i>The Number of Drug Treatment Authorization Requests Has Begun To Stabilize</i>
	96035	1/29/97	California Department of Veterans Affairs: <i>The Veterans Home at Yountville Could Decrease Costs, Increase Revenues, and Improve the Quality of Care Provided to Its Residents by Utilizing Accepted Industry and Managed Care Techniques</i>
	96014	2/26/97	California Transportation Commission and Department of Transportation: <i>The State's Use of Transportation Funds Generated by the 1989 Transportation Blueprint Legislation</i>
	96024	3/31/97	Los Angeles County Metropolitan Transportation Authority: <i>Effects of the Transfer of \$50 Million to Los Angeles County</i>
	96125	4/17/97	Department of Personnel Administration: <i>Improved Controls Would Reduce Risk in Long-Term Savings Plans</i>
	95110	4/21/97	Habitat Conservation Fund: <i>Some State Agencies Need To Do More to Ensure the Fund Is Used Appropriately</i>
	97012	8/4/97	Department of Health Services: <i>Some Drug Treatment Authorization Requests Are Not Processed Promptly</i>

TYPE OF AUDIT	REPORT NUMBER	DATE PUBLISHED	TITLE OF REPORT
Evaluations of Government Programs - continued	96117	10/16/97	U.S. Border Patrol: <i>Its Policies Cause San Diego County Health Care Providers To Incur Millions of Dollars in Unreimbursed Medical Care</i>
	96118	10/27/97	Cerritos Community College: <i>Improvements Needed in Aspects of Operating the District and Its Auxiliary Organization</i>
	96121	10/28/97	Los Angeles Unified School District: <i>The District Can Improve Its Handling of Employees Accused of Child Abuse as Well as Its School Financial Accounts</i>
	97018.1	11/6/97	Los Angeles County: <i>Departments Can Improve Purchasing and Warehousing Practices</i>
	96038	12/9/97	Department of Health Services: <i>Its Drug Management Techniques Are Similar To Those of Health Maintenance Organizations</i>
	97023	12/16/97	Department of Health Services: <i>The Department Does Not Use Its Automated Payment System To Detect Certain Ineligible Outpatient Claims</i>
Audit Follow-Up	95021	12/12/95	Student Aid Commission: <i>Problems Continue With Its Automated Financial Aid Processing System</i>
	94118	4/3/96	Department of Insurance: <i>The Management of Conserved Insurers Has Improved, but Problems With Liquidation and Administration Continue</i>
	95105	4/4/96	Metropolitan Water District of Southern California: <i>A Review of Evaluations and Audits Conducted by Other Entities</i>
	96032	1/30/97	Office of Emergency Services: <i>Shortcomings in Managing Its Disaster Recovery Efforts Hamper Effectiveness</i>
	97106	7/15/97	California Department of Transportation: <i>Some Internal Audit Recommendations Have Been Implemented, but Inconsistencies Exist in Its Contracting for Expert Witness Services (Letter Report)</i>
	97502	8/20/97	Prison Industry Authority: <i>Has Failed To Take Significant Corrective Action on Many State Auditor Recommendations</i>

TYPE OF AUDIT	REPORT NUMBER	DATE PUBLISHED	TITLE OF REPORT
Audit Follow-Up - continued	97500	11/12/97	<i>California Community Colleges: While the Chancellor's Office Has Improved Its Administration of the Economic Development Program, It Has Failed to Fully Address All State Auditor Recommendations</i>
	96042	11/13/97	<i>University of California: Its Award of Breast Cancer Research Funds Is Equitable; However, Some Procedures Should Be Improved</i>
Reviews of Contracting Practices	94015	9/12/95	<i>State Departments: Many Do Not Comply With Consultant Contract Requirements</i>
	96103	5/20/96	<i>California Community Colleges: The State Paid Millions of Dollars to Community Colleges for Questionable Training Agreements</i>
	95015	8/15/96	<i>State Contracting: Reforms Are Needed To Protect the Public Interest</i>
	96023	10/1/96	<i>Employment Training Panel: Has Achieved Many of Its Training Program Responsibilities Despite Some Administrative and Planning Problems</i>
	95115	10/2/96	<i>Office of Historic Preservation: Did Not Always Comply With Requirements for Sole-Source Contracts</i>
	96113	2/25/97	<i>California State University: Evaluation of a Contractor Dispute at the Fullerton Campus</i>
	96015	7/24/97	<i>State Contracting: Improvements Are Still Needed To Ensure the Effective Use of Public Resources</i>
	97501	11/5/97	<i>California Community Colleges: The Chancellor's Office Should Collect Additional Funds for Questionable Training Agreements</i>
Financial Viability	95117	9/13/95	<i>Los Angeles County Metropolitan Transportation Authority</i>
	95121	2/27/96	<i>Orange County Transportation Authority: An Analysis of Its Financial Resources and Obligations</i>
	96105	3/12/96	<i>Oakland USD: A Review and Comparison of Various Costs</i>
	96018	3/28/96	<i>Los Angeles County: Balanced Budgets Will Be a Continuing Challenge</i>

TYPE OF AUDIT	REPORT NUMBER	DATE PUBLISHED	TITLE OF REPORT
Financial Viability - continued	96105.1	8/21/96	Oakland Unified School District: <i>Current Practices Have Improved Its Financial Condition</i>
	96114	8/28/96	Los Angeles County Metropolitan Transportation Authority: <i>Planning and Budgeting of Its Operations and Bus Plan Need Improvement</i>
	96019	11/21/96	Los Angeles County: <i>Budget Challenges Continue, and the Sheriff's Department Could Achieve Savings</i>
	96039.2	2/19/97	Department of Alcohol and Drug Programs: <i>A Review of the Actuary's Report on the 1996 Survey of Treatment Providers</i>
	97018	3/27/97	Los Angeles County: <i>Although It Continues To Balance Current Budgets, Financial Uncertainties Linger</i>
	97122	9/3/97	The UCSF and Stanford Health Services: <i>The Proposed Merger Should Make the Partners Fiscally Stronger, Although the Extent of Financial Benefits Is Potentially Overstated</i>
Fairness of State Charges	95022	1/3/96	Board of Equalization: <i>Policies and Cost Assessment Methods for Special Tax Jurisdictions Need Reconsideration</i>
	95018	1/9/96	Department of Insurance: <i>Needs to Refine Its Cost Model for Insurance Examination and Proposition 103 Fees</i>
	96021	5/21/96	State Bar of California: <i>Opportunities Exist To Reduce Fees, Better Control Administration and Planning, and Strengthen an Improved Discipline Process</i>
	96039.1	2/19/97	Department of Alcohol and Drug Programs: <i>A Review of the Processes Used To Allocate and Disburse Alcohol and Drug Funds to Counties</i>
	96116	7/2/97	Department of Motor Vehicles: <i>Overstated Costs for Registration Information Have Resulted in Inequitable Charges to Customers</i>
	97105	9/4/97	Department of Health Services: <i>The Genetics Disease Branch's Fee Setting, Billing, and Collection Processes Need Improvements, and Its Regulations Do Not Warrant Emergency Status</i>

TYPE OF AUDIT	REPORT NUMBER	DATE PUBLISHED	TITLE OF REPORT
Fairness of State Charges - continued	96020	11/4/97	California Public Utilities Commission: <i>Its Fees May Not Cover Its Costs of Regulating Transportation Companies</i>
Traditional Financial Statement Audits	93031	8/22/95	Department of Rehabilitation: <i>Business Enterprise Program for the Blind Financial Report Year Ended June 30, 1994</i>
	93033	11/15/95	Department of Motor Vehicles: <i>No Firefighters' License Plates Have Been Issued to the Public</i>
	95020	11/15/95	Department of Motor Vehicles: <i>Collegiate License Plate Revenues Have Been Overallocated</i>
	95007	12/12/95	Treasurer's Cash Count (May 31, 1995)
	95001	2/28/96	State of California: <i>Financial Report, Year Ended June 30, 1995</i>
	95006	4/29/96	Treasurer's Cash Count (June 30, 1995)
	95008	5/8/96	State of California: <i>Statement of Securities Accountability of the State Treasurer's Office June 30, 1995</i>
	95002	6/27/96	State of California: <i>Improvements Have Occurred in Controlling Costs, but Some Problems Remain</i>
	95003	6/30/96	State of California: <i>Single Audit Report, Year Ended June 30, 1995</i>
	96008	1/3/97	State of California: <i>Statement of Securities Accountability of the State Treasurer's Office, June 30, 1996</i>
	96039.1	2/19/97	Department of Alcohol and Drug Programs: <i>A Review of the Processes Used To Allocate and Disburse Alcohol and Drug Funds to Counties</i>
	96002	6/26/97	State of California: <i>Internal Control and State and Federal Compliance Audit Report for the Year Ended June 30, 1996</i>
	97006	12/16/97	Treasurer's Cash Count (June 30, 1997)
	97022	12/18/97	Department of Transportation: <i>Seismic Retrofit Expenditures Are Generally In Compliance With the Bond Act, But Some Improvements Are Needed</i>

TYPE OF AUDIT	REPORT NUMBER	DATE PUBLISHED	TITLE OF REPORT
Traditional Financial Statement Audits - continued	97001	12/30/97	State of California: <i>Financial Report Year Ended June 30, 1997</i>
	97008	12/30/97	State of California: <i>Statement of Securities Accountability of the State Treasurer's Office, June 30, 1997</i>
Investigative	I95-2	8/8/95	Investigations of Improper Governmental Activities: January 1 Through June 30, 1995
	I950038	1/17/96	The California Cemetery Board: <i>Incompatible Activities and Breaches of Fiduciary Duties Over Cemetery Trust Funds</i>
	I96-1	3/5/96	Investigations of Improper Governmental Activities: July 1 Through December 31, 1995
	I96-2	9/16/96	Investigations of Improper Governmental Activities: January 1 Through July 31, 1996
	I940262	9/9/96	Investigative Report: <i>Misappropriation of Public Funds, False Claims, and Gross Mismanagement by Employees of the Department of Education</i>
	I960030	10/16/96	Investigative Report: <i>Theft of Funds From a Long-Term Savings Plan by a State Employee</i>
	I97-1	3/18/97	Investigations of Improper Activities by State Employees – August 1 Through December 31, 1996
	I97-2	8/12/97	Investigations of Improper Activities by State Employees – January 1 Through June 30, 1997
	I960159	8/21/97	Investigative Report: <i>Conflicts of Interest, Illegal Acceptance of Gifts, Failure to Report Gifts, and Improper Reimbursement of Expenses at the Teale Data Center</i>

National State Auditors Association

September 24, 1996

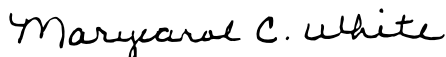
Kurt Sjoberg, State Auditor
California Bureau of State Audits
660 J Street, Suite 309
Sacramento, CA 95814

Dear Mr. Sjoberg:

We have reviewed the California Bureau of State Audits' system of quality control. The purpose of our review was to obtain assurance of the California Bureau of State Audits' compliance with government auditing standards. This review included audit reports issued from July 1, 1995 through June 30, 1996. We conducted our review in accordance with the policies and procedures for external control reviews established by the National State Auditors Association (NSAA). Our review included tests of selected audit engagements for compliance with the State Auditor's quality control policies and procedures as deemed necessary in the circumstances.

In performing our review, we considered the general characteristics of a system of quality control as described in the external quality control review guidelines issued by NSAA. Such a system should be appropriately comprehensive and suitably designed in relation to the California Bureau of State Audits' organizational structure, its policies, and the nature of its functions. Because individual performance can vary in any state audit organization, adherence to all policies and procedures may not be possible in every case. However, adherence to prescribed policies and procedures is expected in most situations.

In our opinion, the California Bureau of State Audits' system of quality control for audits issued from July 1, 1995 through June 30, 1996 was operating effectively and provided reasonable assurance of compliance with generally accepted government auditing standards.



Marycarol C. White
Team Leader
National State Auditors Association



Tom Barnickel
Concurring Reviewer
National State Auditors Association

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INDEPENDENT AUDITOR'S REPORT

Little Hoover Commission
Sacramento, California

I have audited the accompanying Balance Sheet of the Bureau of State Audits (the Bureau) as of June 30, 1997, and the related Statement of Expenditures, Transfers and Changes in Fund Balance and Statement of Expenditures - Budget and Actual (legal basis) for the year then ended. These financial statements are the responsibility of the Bureau of State Audits' management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bureau of State Audits as of June 30, 1997, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

My audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary financial information contained in the Schedule of Expenditures is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Bureau of State Audits. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.


Ralph J. Ricciardi
Certified Public Accountant

San Rafael, California
October 17, 1997